The magazine for active property people

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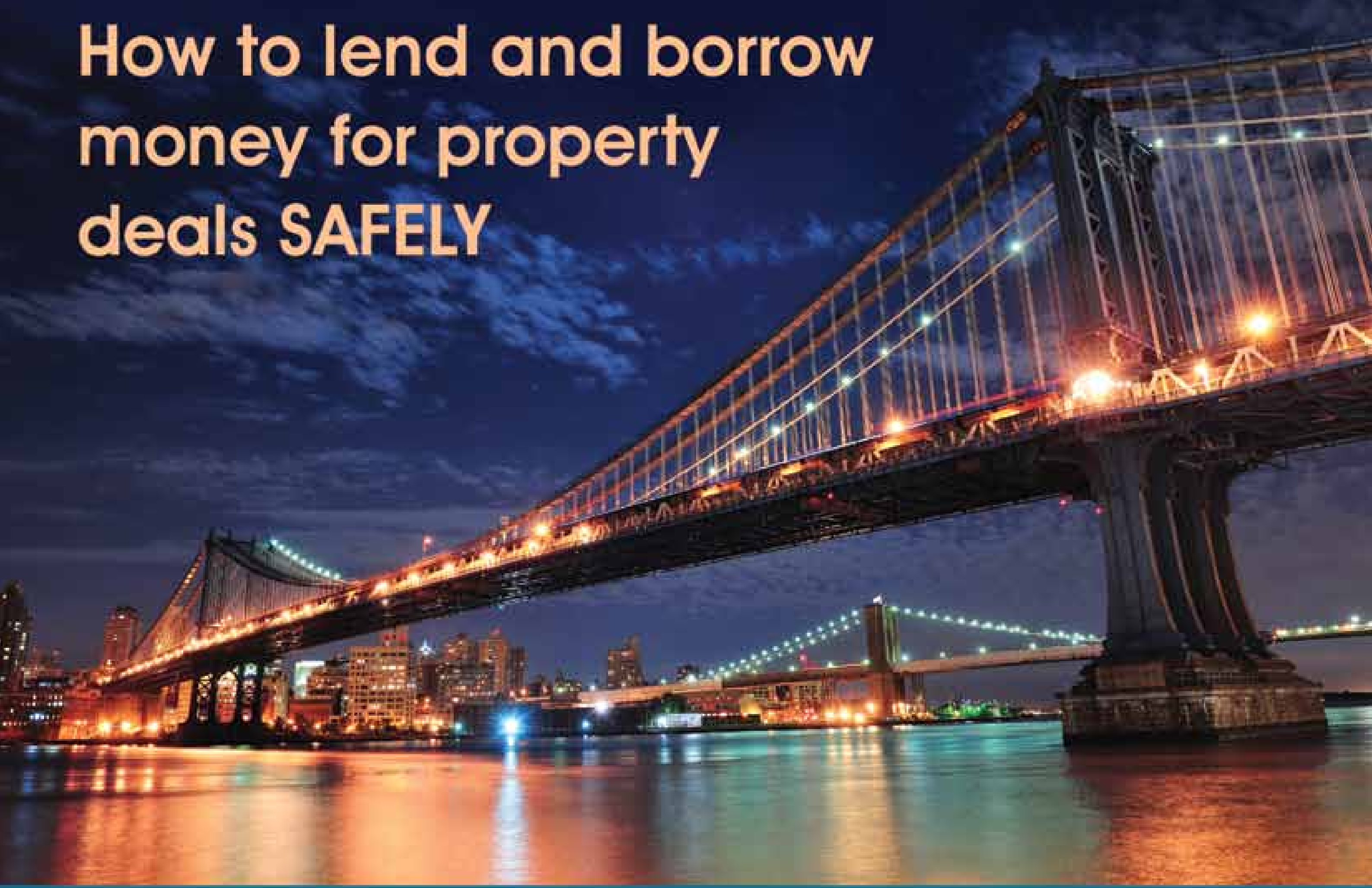
Bridging for Profit

How to lend and borrow money for property deals SAFELY



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Bridging your way to financial success

Rory O'Mara

Some months ago we wrote an article inspired by a discussion we had regarding how if you were starting out with a pile of cash one of the strategies you may choose to adopt to make money from property is **NOT** to invest yourself but to provide finance for deals instead.

We had literally **DOZENS** of emails in response to this article from those of you looking to make significant returns but not wanting the hassle of having tenants. A number of emails were from readers who are a little older and have developed significant capital and are just looking to make a great cash on cash return.

So it's been some months in the making but we thought it was time to follow up this original piece with a profile of someone who has done EXACTLY this.

Rory O'Mara is something of an expert when it comes to lending money to property investors. Through his company **ClosedBridgingFinance.com** he provides bridging loans for a variety of property projects and he has kindly agreed to talk through exactly how he runs his business so any budding bridgers can learn from his experience in protecting against the down side.

Rory launched **ClosedBridgingFinance.com** in 2006 after deciding that he wanted to get involved with property without having to become a landlord! With a background in business and finance, he preferred the idea of building a business rather than a portfolio of buy-to-let properties and after researching the field, identified a gap for reliable bridging companies. He then immersed himself in the industry for a year to understand the key players, and create a methodology and process with strict lending criteria.

What is Bridging?

A bridging loan is a short-term loan over a period of as little as one day to up to twelve months to 'bridge' between one event and another, usually purchase and sale or refinance. Funds are secured on the property in the deal or sometimes other property assets and are more expensive than long-term finance. There are two types of bridging:

- **Closed bridging where there is a fixed end – or exit – date when funds will be repaid. This is less risky for the lender.**
- **Open bridging carries higher risk for the lender. There is no exact date for the finance repayment, and the exit may depend upon the borrower having to find a buyer or alternative financing.**

Why Bridge?

Most investors aim to use a buy-to-let mortgage when they buy or, if the project is suitable, commercial funding. However, every now and again a situation crops up when it is either not possible or not appropriate to follow this route.

- **Non-mortgageable properties. A property without a habitable kitchen or bathroom can be difficult to mortgage. Renovation projects often come into this category.**
- **Converting to HMO. Buying a property with the intention of refurbishing and/or establishing it as an HMO might require short-term finance for the**

development stage, before being able to refinance once the project is complete and the rooms let.

- **Refurbishing and selling on.** **With the aim of extracting profit from 'flipping', an investor might want to undertake and complete a project without the risk of a six-month mortgage restriction in order to sell as quickly as possible once finished.**

- **Splitting a title.** **Bridging might cover the period it takes to split the title of a property, before refinancing or selling each resulting property in its own right.**

- **Breaking a chain.** **When an investor needs to move quickly, if the readies are not sitting and waiting in the bank, a bridging loan can mean getting access to cash faster than through traditional lending. Rory aims to turn funds around within five to ten business days after valuation, providing all the legal work is done on time.**

The key factors for considering bridging therefore come down mainly to restricted finance options, or speed in accessing funds to either purchase or refurbish a project.

The Exit Route

Lender and investor may have different perspectives and outcomes for a project, but they are likely to agree on maximising profit and establishing an exit route.

When Rory looks at a deal, he starts at the end point. What is the likely profit? When and how does this project end? How will the investor repay the bridge? He wants the investor to make a big profit so the deal is worthwhile.

Rory has honed his skills in this area and will drill down into a deal to really understand how it is going to work. He aims to guide the investor to make the right business decisions and buy the right properties to work on.

It is essential to research the exit routes up front. Sold comparables are important as they are likely to be factored in to the final valuation whether the plan is to sell or refinance. Ideally there will be more than one exit strategy.

Deal Assessment and Risk Analysis

Lending money is a risky business. After more than six years, Rory knows exactly what to look for in a deal and has stringent criteria. He looks closely at the investor's track record as well as the deal itself as, if the exit route is to refinance, he wants to be certain that the investor will be capable of getting the refinance funds or the buy-to-let mortgage.

The nature and cost of the bridging loan depend on the risk involved. When he first started with daylight bridging (where funds were loaned out for an hour or two while the property was refinanced on the same day) in 2007 for now obsolete back-to-back deals, risk was much lower than it is today because of the short term. Most lending projects vary from three to seven months, so he has to do his utmost to make sure that his money is protected.

A tip that Rory offers investors is to consider keeping one investment property free of debt. Contrary to popular opinion, bridging finance is not only asset-based; anyone lending money will want to assess the asset for which funds are being raised, but the investor's assets and liabilities statement may reveal other properties that can act as security for the current deal. Of course the opposite is true too – a poor track record or fully geared portfolio is likely to scupper your chances of accessing funds in this way. One of his top clients keeps one buy-to-let property unencumbered to ***"throw into the mix if required"***, enabling Rory to lend more than he would normally when based only on the asset in the deal.

So the lender looks at the asset, additional security, the investor's income stream, experience, credit report and track record for this type of transaction. Anyone thinking of lending money needs to have a realistic 'whole picture' view of everything rather than merely focusing on the deal.

Risk vs Return

Returns depend on the level of risk involved in the overall proposition, but as a guideline Rory offers two bridging products:

- **The Standard Bridge, where he aims to lend up to 60% of the purchase price or value, whichever is lower, from 1.5% per month.**
- **The newer Super Higher LTV Bridge takes into account a higher level of risk, and has a corresponding higher interest rate. At a guideline rate of 2% per month, he will consider lending up to 100% of the purchase price or value, whichever is lower, depending on the exit strategy.**

There is an up-front £1,500 commitment fee; all other costs are added to the redemption figure at the end.

From the perspective of the investor, costs are factored in to the potential profit. This is all about leverage, where the focus is on the end profit, not the cost of lending.

More advice to borrowers: always focus on the net advance – the actual amount of money that the lender pays on the day of completion, rather than the loan to value (LTV).

Security

When lending money to others, security is a **much** higher concern than when investing funds into your own property projects. As outlined earlier, as well as the asset within the deal, it may be appropriate to look for security elsewhere within the investor's portfolio.

Rory generally has a first charge registered against the security property. It is essential to use a specialist lawyer and for the borrower to have legal representation as well. The solicitor will make sure that the title of the property is good, and register the charge against it.

He prefers to avoid registering a second charge, and will not consider anything beyond that. Second charge lending tends to be associated with smaller or deposit loans, which he does not favour.

"As a lender, I would suggest that you only lend on a first charge basis. If you're second in the queue, then the person with the first charge has the first call. If something goes wrong, if you're second or third or even further down the line … you have a slimmer chance of getting your money back."

A FEW WORDS OF CAUTION

- **Secure loans against investment property. Lending against a borrower's main home or principal private residence (PPR) is highly regulated. If you are not regulated by the FCA/FSA, do not use the PPR as a FIRST security, but as a SECOND charge only where the borrower understands that this is a business loan.**

- **This is a business loan. Make it clear on the documentation; even if lending to an individual, the paperwork must reflect that this is a loan for business.**

- **It is not about No Money Down. Those days are gone. Lenders need to see full disclosure and proof of funds from borrowers.**

What if it Goes Wrong?

If the worst happens, repossession is a legal process. To date, Rory has not had to take this step, but warns that this is one of the key reasons to make it a business loan with official, properly drawn-up paperwork. If the situation did occur, he would instruct solicitors to start the repossession process.

To date, he has only had one loan where money has become 'stuck' in the deal, in this case because the borrower found it more difficult to refinance than originally anticipated. The bridge has now been extended on a monthly basis while he and the borrower review available exit options.

A Full Time Job

Lending in this way is not a hobby. In fact, for Rory it is almost six days a week; he spends a big part of his life looking at deals, measuring them against criteria, rejecting possibly nine out of ten applications.

Lending requires capital to start but not everyone might be attracted to the intensive research, measurement against criteria and due diligence that Rory puts into his deals. In addition to lending on his own behalf, he works with a very small and select group of passive private lenders who invest through him and who can earn around 8-12% per annum on each deal.

Though not actively seeking funding investors, he is always happy to have a chat about the processes involved.

Sexy Finance!

Some might ask "why go to the cost of bridging when you can joint venture at lower cost?" Rory puts it like this:

Having a joint venture (JV) partner is like being married for life, whereas bridging is more like safe sex on a one-night stand! With a JV, you generally co-own the asset for a long term. If there is an uneven split of funding or workload, things can get messy and the ultimate cost – for example if half the funds are being given away to a silent JV partner – can be higher than a short-term bridge at the beginning.

A safe, protected one-night stand when it comes to finance can be cleaner and cheaper when analysed over the longer term.

Ten Tips for Potential Lenders

1. **Stick within your lending criteria and methodology.**
2. **Understand everything relating to the deal and make sure there is a good profit at the end – lending is all about numbers.**
3. **Confirm the investor has at least one clear exit route, preferably more.**
4. **Identify sold comparables for the project.**
5. **Look at the investor's income, track record and wider portfolio as well as the deal itself.**
6. **The higher the risk, the higher the rate.**
7. **Only lend on a first charge for maximum security.**
8. **Secure loans against investment property.**
9. **Structure loans as business loans.**
10. **Always use lawyers.**

For more information about Rory's bridging finance, go to his web site **ClosedBridgingFinance.com** and click the Quick Quote button.

Case Study #1

43-Bed Student Units Requiring Planning Permission

Before Works: Warehouse

During Works: Conversion to Flats

Situation: Investor wanted to borrow bridging funds to purchase an empty warehouse in Midlands and obtain planning permission for 43+ student rooms. He had the cash but wanted to secure another project so took advantage of the power of leverage.

Solution: 95% of the purchase price for a period of up to 12 months. The investor provided security of the warehouse and an additional 3-bed unencumbered property. Planning was obtained, then longer term development finance used to build out the site.

Up-front cash required for the bridge was £1,500 Commitment fee to cover legals and ring fence funds. All fees/interest paid at redemption.

The project will be ready for occupation in September 2013. When completed the site will have an investment value of approx. £3m, gross annual rents of £230,000+, total costs will be approx. £2m, giving a profit of £1m.

Key Numbers:

Purchase Price:	**£120,000**	Bridging Loan Cost:	**£20,183**
Gross Loan:	**£135,000**	Security:	**Warehouse & 3 bed house**
Bridging Loan Advance:	**£114,817 (95% Gearing)**	Type:	**1st Charge Loan**
Loan Term (months):	**6**		

For a chat about private lending and how you may be able to work with Rory to provide funds for projects and make a great return on your capital OR to request a portfolio review, contact him either via email info@closedbridgingfinance.com, or call 08456 440 911.

News Update

Since the time of initially interviewing Rory we have seen a change in the terms and conditions of one of the main buy-to-let lenders, The Mortgage Works.

We are now advised (by the brilliant Lisa Orme on the ever outstanding BMV facebook group) that following their criteria shake up TMW will no longer allow refinancing where a private investor has funded the deal. They have no issue with a proper bridging finance company but not if it is a private individual.

If you have funds to lend, work with Rory and use his brand ClosedBridgingFinance.com which has been running as a bridging company for 6+ years to overcome this challenge.

For clarification get online at **https://www.facebook.com/groups/ukbmv**

Bridging Application Process

1 Submit application to lender.
2 If accepted, lender will offer indicative terms.
3 Lender instructs valuation.
4 Lender issues actual terms based on underwriting criteria.
5 Funds are usually released within 5-10 days.

Now listen in full

Listen to the full interview with Rory by, scanning the QR code to the right or entering the link below into your web browser.

http://bit.ly/13xbTzo

YPN SAYS

This article demonstrates that there are a million and one ways to make money from property sometimes with never actually owning or buying any!

Clearly lending money for investment projects is a serious business and Rory illustrates how you **REALLY** need to understand a deal if you are going to provide finance and make sure your money is safe.

We should perhaps compare his professional approach to lending funds to the gung-ho approach that sometimes seems to be adopted by investors providing smaller sums of money for fixed rates of return to other individuals.

Here in the YPN offices we have lost count of the number of calls we have had from those of you who have contemplated investing £20,000, £30,000 or £50,000 for perhaps 1.5% return per month.

Often the security of these loans is highly questionable and the individual providing finance does not understand the deal that they are actually providing finance for.

Lending money is a serious business, take it seriously and there ARE serious profits to be made.

Case Study #2

Purchase Property and Convert to 14-Bed HMO

Situation: Investors wanted to borrow bridging funds to purchase a large mixed commercial/residential property and convert to a 14+ bed HMO. Planning permission was required, the positive pre-application gave us confidence to lend. Investors had funds to cover the deposit and cost of works. The property was not mortgageable in its original near derelict state. We had also arranged Commercial HMO funding prior to purchase and works complete.

Solution: 66% of the purchase price for a period of up to 12 months. The investor provided security of the property being purchased.

Full Planning permission was obtained and the long process of gutting the site and build commenced. The investors decided to project manage the process enabling tight control on costs and quality of work.

Up-front cash required for the bridge was £1,500 Commitment fee to cover legals and to ring fence funds. All fees/interest paid at redemption.

Investor was happy to borrow bridging funds and put the least amount of his working capital into the project. The more you bridge the less you have to JV, which can work out cheaper in the longer term.

The project took approx. 8-9 months to build and obtain HMO licences. It is now tenanted. Based on gross rents the investment value is approx. £900,000. After completion and refinance we would expect the investors to leave approx. £50,000 cash in the project. After mortgage costs, management, maintenance and voids the Cash on Cash Return would be over 20%, certainly better than cash in the bank or monies left in a single AST let. The loan was extended by a couple of months whilst the HMO licence was obtained.

Key Numbers:

Purchase Price: **£215,000**

Cost of Build: **£187,000**

Gross Loan: **£165,500**

Bridging Loan Advance: **£142,373 (66% Gearing)**

Loan Term (months): **7 extended to 9**

Bridging Loan Cost: **£28,143**

Security:**HMO**

Type: **1st Charge Loan**